

## **Below Market Price Homes**

### **Subordination Policy for City of Fremont Approved Lenders**

### **November 2010**

**On the occasion, the City of Fremont receives a request to subordinate its interest in a home purchased under the City of Fremont's Moderate Income Home Ownership Program:** When a new mortgage loan (re-finance) is obtained, and the old mortgage loan is paid off, the City's interest in the property moves into first position on title, unless the City agrees to subordinate its interest to the new financing. Because most mortgage lenders refuse to make a loan with the most favorable terms unless their loan is in first position, the City will agree to subordinate its position on title to new financing if certain conditions are met, as described below:

1. A subordination request will not be considered unless the following requirements are met:
  - The proposed financing will result in a total debt against the property, including the City's silent-second mortgage, which does not exceed 90% of the Maximum Sales Price as calculated per Section 11 of the homeowner's Buyer's Occupancy and Resale Restriction Agreement with Option to Purchase.
  - The new loan must have a fixed interest rate, with no balloon payments. The Monthly Housing Cost must not be greater than the Affordable Housing Cost.
  - The proposed financing will not result in negative amortization that could exceed the 90% debt-to-Maximum Sales Price ratio stated above. (Negative amortization occurs when the monthly payments on a loan are insufficient to pay the interest accruing on the principal balance. The unpaid interest is added to the remaining principal due, creating "negative amortization.")
2. Only a Primary or Secondary contact person from the City's Approved Lender list may provide the following documents to the City of Fremont, Office of Housing and Redevelopment, along with a request for subordination:
  - An appraisal completed within the last 60 days
  - A preliminary title report completed within the last 30 days.
  - A current credit report
  - A current mortgage statement
  - Estimated closing statement
  - Documentation (preliminary loan commitment, loan application, etc.) describing the proposed financing to include:
    - The amount of the proposed loan
    - The interest rate
    - The term
    - The type of loan (only fixed rate loans allowed)
    - The current balance of all loans secured by the property
  - Documents to show costs such as:
    - Utilities
    - Property taxes

- Property Insurance
  - Mortgage insurance premium (if applicable)
  - Homeowners Association fee (if applicable)
  - Allowance for maintenance and repairs (if applicable)
3. Subordination Fee: **\$250.00. To avoid any delay in underwriting process, please include with your subordination request a money order or a cashier's check addressed to the City's underwriter "Amerinational Community Services".**
  4. Once the City receives the documents, the City will do an initial review of the information submitted. This process should not take more than **five (5) business days**.
  5. The City will then forward the documents to its underwriting agent. The underwriting Agent will evaluate the appraisal report, title report, description of proposed financing, current balance of all loans secured by property, and the debt-to-value ratio. Typically, this process should not take more than **ten (10) business days**.
  6. If the City's underwriting agent determines that the request meets the City's debt-to Maximum Sales Price ratio and financing requirements, then the underwriter will forward the subordination analysis to the City for approval. Upon the City's approval, the Subordination Agreement is prepared and forwarded to the Title Company for borrower's notarized signature(s). However, if the subordination request is not approved, the City's underwriting agent will notify the City and the title company and provide the reason for the denial.
  7. Once the City receives the Subordination Agreement (with borrower & notary signatures), it generally takes the City **five (5) business days** to process for appropriate City signatures. When the Subordination Agreement is executed by the City and is ready for pick up, City staff will notify the title company.
  8. **Average total turn around time for Subordination Requests is approximately twenty (20) business days.**

**The approved lender must route subordination requests along with the supporting documentation through a title company to:**

May Lee  
First Time Home Buyer Program Administrator  
City of Fremont  
Office of Housing & Redevelopment  
39550 Liberty Street  
Fremont, CA 94538

**Thank you for your participation in the City of Fremont's First Time Home Buyer Program.**